

**AGREEMENT**

WHEREAS, DAD'S PRODUCTS COMPANY, INC. and PET LIFE FOODS, INC. (individually "Dad's" and "Pet Life" and collectively "Buyers") are parties to a certain Supplier and Royalty Agreement dated November 23, 1999 (the "Royalty Agreement") with GAINES PET FOODS CORP. and GAINES PET FOODS (collectively "Seller") and SHATO HOLDINGS LTD. ("Shato");

WHEREAS, the Royalty Agreement obligates Buyers to make quarterly royalty payments to Seller as provided in Section 3.1 thereof (the "Royalty");

WHEREAS, the obligation to pay the Royalty to Seller is joint and several as between Dad's and Pet Life;

WHEREAS, Seller and Dad's have been advised by Pet Life that Pet Life will not be making any further payments of the Royalty;

WHEREAS, Dad's is willing to make a lump sum prepayment of the Royalty to Seller thereby extinguishing the right of Seller to receive any further payments of the Royalty, and Seller is willing to accept a prepayment of the Royalty from Dad's, all in accordance with the terms and conditions hereinafter set forth; and

WHEREAS, Shato is the owner of all equity interests in Seller.

NOW, THEREFORE, in consideration of the mutual covenants contained herein and intending to be legally bound hereby, the parties agree as follows:

1. **Prepayment of the Royalty.** Dad's agrees to make a lump sum prepayment of the Royalty in the amount of (U.S.) \$750,000 (the "Royalty Prepayment"), which shall be paid to Seller by bank draft or wire transfer of funds not later than the close of business on Thursday, May 23, 2002. Seller agrees to accept the Royalty Prepayment in full satisfaction of Seller's right to receive the Royalty as otherwise provided in Section 3.1 of the Royalty Agreement.

2. **Release and Assignment.** Conditioned upon receipt of the Royalty Prepayment of (U.S.) \$750,000 from Dad's as provided hereinabove, Seller and Shato hereby release and discharge Dad's from all further obligations of every kind and nature whatsoever otherwise arising out of the Royalty Agreement; and Seller hereby assigns to Dad's all rights of Seller, if any, against Pet Life arising out of the Royalty Agreement. Seller makes no representation or warranty of any kind to Dad's as to the nature or extent of Seller's rights against Pet Life.

3. **Acknowledgment.** Seller and Shato acknowledge that payment of the Royalty Prepayment is being made solely by Dad's, and that Seller has received notification from Pet Life of its refusal to make any further payments of the Royalty. The parties further acknowledge that Dad's is expressly reserving all rights available to it in law or in equity to seek contribution and/or to recover damages from Pet Life, its successors and assigns, as a result of Pet Life's failure to participate in the payment of the Royalty. Seller and Shato make no representation of any kind or nature as to the extent to which Dad's is entitled to contribution or indemnification from Pet Life.

EXHIBIT

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McGraw-Hill Financial Information - Books, Pet Life, Shato, Shato

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4. No Further Claim Against Seller or Shato. Further, Dad's hereby acknowledges and agrees that it shall have no further claim against Seller or Shato on account of any outstanding of future claims by former customers of Gaines Pet Foods on account of damaged product, promotional allowances, returns, defective products, marketing or other similar matters, and accordingly Dad's acknowledges and agrees that it shall have no right on account of any of the foregoing of set off against the Royalty Agreement nor shall Dad's have any right or entitlement in the future to seek indemnification or reimbursement from Seller or Shato on account thereof.

This Agreement shall be construed, interpreted, and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

WITNESSES the due execution hereof as of the 23<sup>rd</sup> day of May, 2002.

DAD'S PRODUCTS COMPANY, INC.

BY: 

Richard A. Yang, Jr., President

GAINES PET FOODS CORP.

BY: 

Title: CEO

GAINES PET FOODS

BY: 

Title: Secretary

SHATO HOLDINGS LTD.

BY: 

Title: Senior VP

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